The Future Of Money: Gearing Up For A Central Bank Digital Currency

It's a corporate takeover of global governance that affects our food, our data, our vaccines, etc.

IMF speech made on February 9, 2022

Let me start by thanking the Atlantic Council for providing a fitting venue to discuss central banks' forays into Digital Currencies.

Since its founding in 1961, the Council has made important contributions to strategic, political, and economic policy debates. Those debates have served us well, helping us to test the boundaries of our thinking and be better prepared for what lies ahead.

So, today, we aim to test our thinking again. We have moved beyond conceptual discussions of CBDCs and we are now in the phase of experimentation. Central banks are rolling up their sleeves and familiarizing themselves with the bits and bytes of digital money.

These are still early days for CBDCs and we don't quite know how far and how fast they will go. What we know is that central banks are building capacity to harness new technologies—to be ready for what may lie ahead.

If CBDCs are designed prudently, they can potentially offer more resilience, more safety, greater availability, and lower costs than private forms of digital money. That is clearly the case when compared to unbacked crypto assets that are inherently volatile. And even the better managed and regulated stable coins may not be quite a match against a stable and well-designed central bank digital currency.

We know that the move towards CBDCs is gaining momentum, driven by the ingenuity of Central Banks.

All told, around 100 countries are exploring CBDCs at one level or another. Some researching, some testing, and a few already distributing CBDC to the public.

In the Bahamas, the Sand Dollar—the local CBDC—has been in circulation for more than a year.

Sweden's Riksbank has developed a proof of concept and is exploring the technology and policy implications of CBDC.

In China, the digital renminbi [called e-CNY,] continues to progress with more than a hundred million individual users and billions of yuan in transactions.

And, just last month, the Federal Reserve issued a report that noted that "a CBDC could fundamentally change the structure of the U.S. financial system."

As you might expect, the IMF is deeply involved in this issue, including through providing technical assistance to many members. An important role for the Fund is to promote exchange of experience and support the interoperability of CBDCs.

As part of the service to our members, today we are publishing a paper that shines a spotlight on the experiences of six Central Banks at the frontier—including China and Sweden—to be covered in the panel discussion following my remarks.

We take away three common lessons from these Central Banks from which others may benefit.

Lesson number one: no one size fits all.

There is no universal case for CBDCs because each economy is different.

In some cases, a CBDC may be an important path to financial inclusion—for instance, where geography is an obstacle to physical banking.

In others, a CBDC could provide an essential backup in the event that other payment instruments fail. One such case was when the Eastern Caribbean Central Bank extended its CBDC pilot to areas struck by a volcanic eruption last year.

So, central banks should tailor plans to their specific circumstances and needs.

Lesson number 2, financial stability and privacy considerations are paramount to the design of CBDCs.

Central banks are committed to minimizing the impact of CBDCs on financial intermediation and credit provision. This is very important for the wheels of the economy to run smoothly. The countries we studied offer CBDCs that are not interest-bearing—which makes a CBDC useful, but not as attractive as a vehicle for savings as traditional bank deposits.

We also saw in all three active CBDC projects—in the Bahamas, China, and the Eastern Caribbean Currency Union—that they placed limits on holdings of CBDCs, again, to prevent sudden outflows of bank deposits into CBDC.

Limits on holdings of CBDCs also helps meet people's desire for privacy while guarding against illicit financial flows. Smaller holdings are allowed without the need for full identification if the risks of money laundering and terrorist financing are low—this could be a boon for financial inclusion. At the same time, larger transactions and holdings require more stringent checks, as you would expect if you deposit a bag of cash at the bank.

In many countries, privacy concerns are a potential deal breaker when it comes to CBDC legislation and adoption. So, it's vital that policymakers get the mix right.

And that brings me to lesson number three: balance.

Introducing a CBDC is about finding the delicate balance between developments on the design front and on the policy front.

Getting the design right calls for time and resources, and continuous learning from experience—including shared experiences across countries. In many cases, this will require close partnerships with private firms to successfully distribute CBDCs, build e-wallets, add features, and push the bounds of technology.

But the policy aspects are also paramount, including developing new legal frameworks, new regulations, and new case law.

On both fronts, a CBDC also requires prudent planning to satisfy policy targets like financial inclusion, and avoid undesirable spillovers such as sudden capital outflows that could undermine financial stability.

Taken together, careful design and policy considerations will underpin trust in CBDCs. But let us not forget that trust must be anchored in credible central banks with a history of delivering on their mandates.

Introducing a CBDC is no substitute for this underlying trust built over decades—a public good that allows money to grease the wheels of our economies.

The success of a CBDC, if and when issued, will depend on sufficient trust. And, in turn, any successful CBDC should continue to build trust in central banks.

In conclusion.

The history of money is entering a new chapter.

Countries are seeking to preserve key aspects of their traditional monetary and financial systems, while experimenting with new digital forms of money.

The paper we are releasing today shows that for those experiments to succeed policymakers need to deal with many open questions, technical obstacles, and policy tradeoffs.

It may not be easy or straightforward, but I am confident that the bright minds in Central Banks can succeed, thanks to their trademark resourcefulness and perseverance.

Fittingly, even the great inventor Thomas Edison acknowledged that: "There is no substitute for hard work."

And this is what we embrace at the IMF: This hard work has already advanced. We are supporting countries in their CBDC experiments—to understand big picture trade-offs, to provide technical assistance, and to serve as a transmission line of learning and best practice across all 190 members. And we are stepping up collaboration with other institutions, such as the Bank for International Settlements, at par with the rapidly growing significance of digital money.

Today's discussion is only the beginning of an exciting journey — and we have a great panel to take us further on it.